



Thursday, June 08, 2017 12:04 PM ET

## Private equity real estate managers adapt strategies amid fierce competition

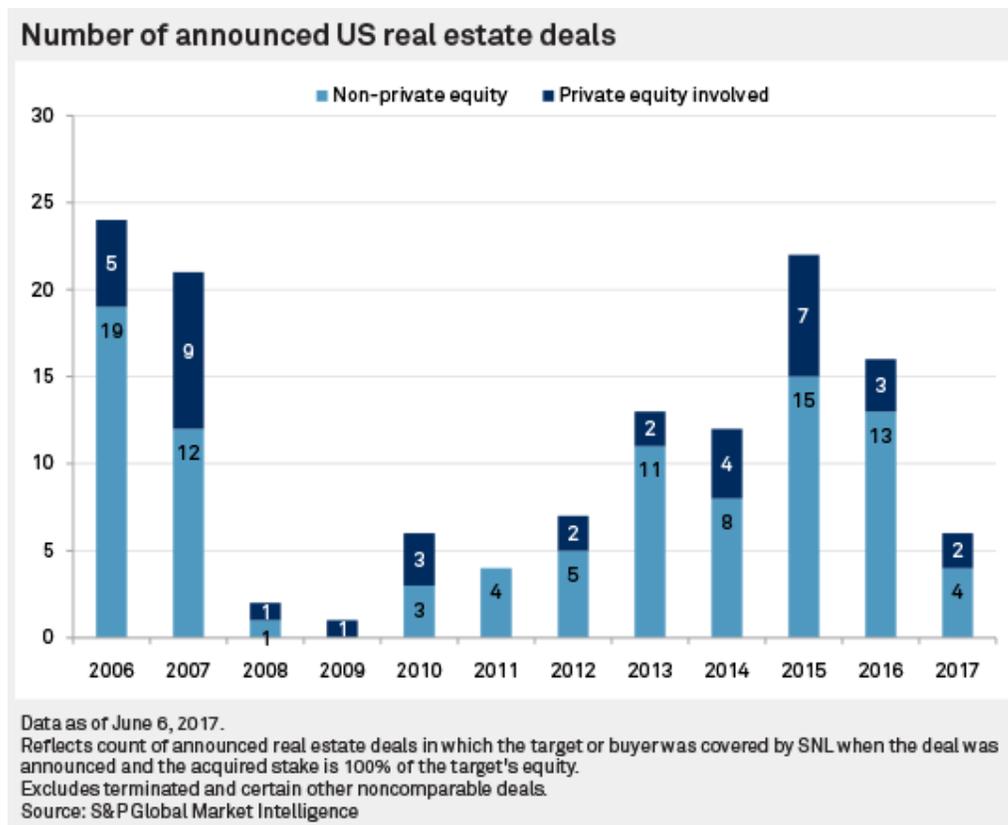
By [Camilla Yanushevsky](#)

For private equity real estate managers, opportunities to buy low and sell high are increasingly difficult to come by, with valuations increasing substantially across all markets and competition fiercer than ever.

Real estate "dry powder" — money pledged by investors that has yet to be deployed — [rose](#) to a new record of \$247 billion at the end of the first quarter, while private real estate fundraising and deal activity showed signs of slowing, research firm [Preqin reported](#).

Global fundraising for private real estate in the first quarter represented the lowest amount of capital raised in a single quarter since the first quarter of 2013, with just 38 funds worth an aggregate \$16 billion reaching a final close, initial figures released by Preqin showed. Both the number and aggregate value of real estate deals also fell in comparison to recent periods. In total, 568 deals worth an aggregate \$38 billion were completed during the quarter, roughly 33% less than the 853 deals worth \$57 billion in the fourth quarter of 2016.

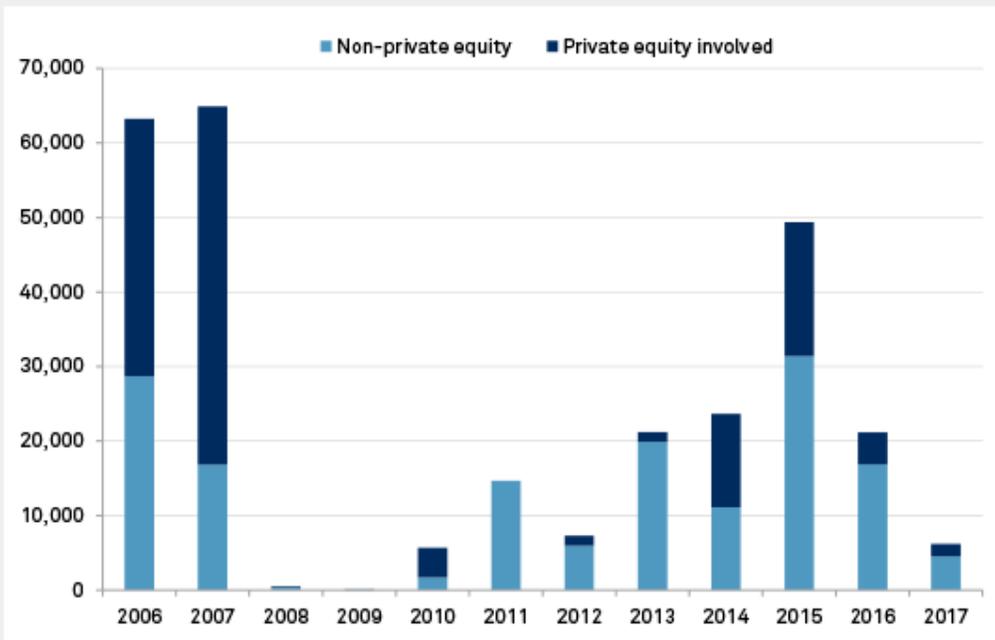
Meanwhile, the number of private real estate funds in the market is mounting. As of the beginning of the second quarter, there were 554 funds seeking an aggregate \$189 billion in capital, the highest targeted amount since 2009, Preqin noted in its quarterly update.



"I certainly see the level of competition getting stiffer," said David Blatt, CEO of investment firm CapStack Partners, during an interview with S&P Global Market Intelligence. He noted that some investors who used to invest as limited partners within funds are now competing directly in the market for assets with private equity firms.

However, private equity firms have also been able to attract capital -- including insurance companies, family offices and various foreign capital -- that is comfortable with a longer investment horizon and lower near-term returns compared to the traditional five-year hold with high return thresholds, Blatt said. That gives private equity firms leeway to offer varying structures within their product line.

### Aggregate value of US real estate deals (\$M)



Data as of June 6, 2017.  
 Reflects announced value of real estate deals in which the target or buyer was covered by SNL when the deal was announced and the acquired stake is 100% of the target's equity.  
 Excludes terminated and certain other noncomparable deals.  
 Source: S&P Global Market Intelligence

Head of real estate products at Preqin Andrew Moylan told S&P Global Market Intelligence that the hurdles in finding value have caused some investors to adapt their strategies and look for value in secondary markets both in the U.S. and Europe. Moylan added that Europe is perhaps seeing more interest than the U.S. from institutional investors and global fund managers, citing European interest rate policy as one of the driving factors.

On an asset level, fund managers have shifted their appetite away from traditional assets — office, residential and retail — and toward industrial and niche sectors, such as self-storage, student housing and senior homes, Moylan said.

### 2017 US real estate deals

Target/ Buyer	Announcement date	Private equity involvement?	Deal status	Announced deal value (\$M)
Care Capital Properties Inc./Sabra Health Care REIT Inc.	05/07/17	No	Pending	2,524.97
Sentio Healthcare Properties Inc./Kayne Anderson Real Estate Advisors	05/04/17	Yes	Pending	181.33
MVP REIT Inc./MVP REIT II Inc.	05/01/17	No	Pending	NA
FelCor Lodging Trust Inc./RLJ Lodging Trust	04/24/17	No	Pending	1,187.77
Silver Bay Realty Trust Corp./Tricon Capital Group Inc.	02/27/17	No	Completed	820.77
Milestone Apartments Real Estate Investment Trust/Starwood Capital Group Management LLC	01/19/17	Yes	Completed	1,499.78

Data as of June 6, 2017.  
 Includes real estate deals announced year-to-date in which the target or buyer was covered by SNL when the deal was announced and the acquired stake is 100% of the target's equity.  
 Excludes terminated and certain other noncomparable deals.  
 NA = not available  
 Source: S&P Global Market Intelligence

Despite the challenges in finding value, Moylan maintains a bullish outlook for 2017. According to the research head, most investors are still confident that they can put their capital to work.

"The real estate industry is growing, and the amount of money that it puts out every year is growing, so while that is still happening, dry powder can continue to grow, as long as it is at kind of sustainable levels, which is what it has been in the last few years," he said.

### Product Tips



For further M&A analysis, check out the [US/Canada Real Estate M&A Profile](#) template in our [template library](#).

*Article amended at 4:35 p.m. ET on June 9, 2017, to clarify comments about competition and shifting investment horizons.*